Teachers Assurance

investing for your future

Financial Planning Guide

For teachers who are newly qualified

www.teachersassurance.co.uk/pensions-and-retirement

Firstly, congratulations, you've qualified! Now the fun really starts!

At Teachers Assurance, we have been helping newly qualified teachers for many years and have huge respect for your chosen profession, the contribution you make, the individual successes you achieve, the challenges you overcome and the sheer hard work that you put in.

We hope you enjoy a long and successful career in teaching and we'd like to play our part by helping to make sure you receive the best financial planning support along the way.

As you begin to look forward, it is our wish to help smooth the way for you to enter this new phase in your life, whatever that holds and wherever it may take you. We aim to apply the same level of professionalism, diligence and commitment in our work with you as you do in yours.

Our experience, gained over 130 years of providing financial planning support to the teaching profession, tells us that many teachers have a lot of questions about their pension scheme and its associated benefits when they start out.

This guide seeks to answer the most common of those questions, provide you with a simple explanation of what you can expect from your pension scheme and point out the shortfalls as well as the financial planning decisions you should be considering now.

Please note that this guide is aimed at teachers who joined the Teachers' Pension Scheme from 1 January 2007 onwards.

Read on to find out the answers to the following questions;

- ✔ What are the benefits of the Teachers' Pension Scheme?
- ✔ How much pension will I get?
- ✔ How can I top these benefits up?
- ✔ What happens if I wish to retire early?
- ✔ What happens if I cannot work due to ill health?
- ✔ What should I do to protect myself and my family?
- ✔ What happens if I die before retirement?
- ✔ What other financial plans should I be making?
- ✔ Why should I choose Teachers Assurance?
- ✔ Where do I go for more help?

What are the benefits of the Teachers' Pension Scheme?

The Teachers' Pension Scheme is known as a "final salary" scheme. This means that you contribute towards the scheme each month in return for a pension at retirement, which is based on your salary and your length of service. You will need a minimum of 2 years' membership of the Teachers' Pension Scheme to qualify for pension benefits.

- In addition to your contribution, your employer also makes a substantial contribution towards the cost of your pension benefits.
- When you retire, the Teachers' Pension Scheme provides you with a guaranteed regular, taxable income for the rest of your life. This income is index-linked to protect its value against the effects of inflation.
- If you become too ill to work, you will receive sick pay for a period of time from your employer. Depending on your illness, you could receive your pension early, your benefits may be enhanced, or for severe illness your pension benefits could be converted to a lump sum.
- Should you die before retirement, the scheme will pay a lump sum and may also pay a pension to your family or dependants. Should you die after retirement, the scheme may also provide a pension to your family or dependants.
- You can increase your pension by purchasing extra pension benefits.
- You may also be able to transfer in pension credit from another scheme.

Please note that all teachers, both full and part time, are automatically members of the scheme unless they elect to opt out.

How much pension will I get?

Pension

Normal retirement age from the scheme is 65.

To determine your pension income, the Teachers' Pension Scheme takes into account 1/60th of your Average Salary* for every year that you have worked. The pension will be taxable, in the same way as earned income.

This can be expressed as follows:

$$\frac{\text{Number of years service}}{60} \times \text{Average Salary*} = \text{Pension per annum (before tax)}$$

*See the following page for an explanation of Average Salary.

Tax-Free Cash Lump Sum

You may forego part of your pension in favour of a tax-free cash lump sum. You have to give up £1 of your pension for every £12 of lump sum.

The maximum lump sum that you can take is 25% of the capital value of your pension. Use the following calculation to work out the maximum. You can take a smaller lump sum if you wish.

$$\frac{\text{Pension x 20}}{4.6667} = \text{Maximum tax free cash sum}$$

The following example shows how taking a lump sum affects your pension:-

Example

A teacher joins the scheme aged 22 and retires at 65 on a final "average" salary of £33,000.

Pension (no lump sum) 43/60 x £33,000 = £23,650 p.a. (before tax)

Maximum Lump Sum (if part of pension given up) $\frac{(£23,650 \text{ x } 20)}{4.667} = £101,349$ (tax-free)

Amount of pension given up $\frac{£101,349}{12} = £8445$

which reduces the pension to £15,205 p.a (before tax)

Average Salary

When calculating your pension, your average salary will be the greater of:-

- The average of the best 3 consecutive years' salary in the last 10 years before the date of retirement, revalued in line with the Retail Price Index each year up to April 2011 when it will be revalued in line with the Consumer Prices Index.
- The pensionable salary received in the last 12 months before retirement.

  There are however restrictions in place where there have been significant increases in salary in the run up to retirement.

How can I top up my benefits?

If you feel that your pension and lump sum will not be sufficient to meet your requirements in retirement you have a number of options:

First, you need to determine whether you require a bigger lump sum (capital) or a greater amount of income in retirement.

If you require more income

You can buy a fixed additional amount of pension income of between £250 and £6,000 per annum from the Teachers' Pension Scheme.

You can choose to pay for this additional benefit by either a lump sum or regular deduction from your salary. These deductions are made before your salary is taxed so you effectively receive tax relief on your contribution at the highest rate at which you normally pay tax.

If you require a lump sum

There are various options open to you if you wish to invest to create a lump sum in retirement. The best option for you will depend on a number of factors including:

- Your timescale
- Your attitude to investment risk
- The amount of access to your money or flexibility you require between now and retirement
- Your tax position
- The nature of any other investments you already hold
- Whether you wish to invest a lump sum or a regular amount for capital growth

At Teachers Assurance we offer a range of savings plans and lump sum investment plans that might prove suitable for you, including Unit Trusts, Individual Savings accounts (ISAs), Bonds, Guaranteed Savings Plans and Tax Free Savings Plans.

We also offer a straightforward range of fund choices, so whether you prefer to invest in a cautious, balanced, adventurous or ethical way, we have a simple solution for you.

What happens if I wish to retire early?

You may have only just started out but if you want to retire early, the sooner you start to plan, the easier and more cost effective it should be.

You can choose to retire from age 55 onwards. Your pension will be actuarially reduced to take account of the fact that its likely to be paid for longer. The earlier you retire, the lower your pension will be.

To obtain a specific personal calculation, use the online Pension Calculator at www.teachersassurance.co.uk/tools/pension-calculator. You can calculate exactly how much you're likely to receive depending on when you choose to retire.

Alternatively, if you require information, education and support on planning for early retirement, please telephone us on Freephone **0800 056 0563** or visit our website at **www.teachersassurance.co.uk**.

What happens if I cannot work due to ill health?

Take care, there are shortfalls.

If you fall sick, you will receive sick pay for a period of time. This is dependant on your length of service.

Length of service	Full pay	Half pay
Less than 4 months	25 days	Not applicable
4 months – 1 year	25 days	50 days
In 2nd year	50 days	50 days
In 3rd year	75 days	75 days
From 4th year onwards	100 days	100 days

In the event of continued ill-health, after your sick pay has ceased, you may apply to Teachers Pension for an incapacity pension. However, you are not guaranteed to be granted an incapacity pension.

You will need a minimum of 2 years' membership of the Teachers' Pension Scheme to be eligible to apply for ill health benefits.

There are two types of incapacity benefit that may be granted:-

Total incapacity – you must be incapable of teaching or any other "gainful employment". If granted you will receive a pension based on service to date plus half your prospective service to normal retirement age

Partial incapacity – you must be permanently incapable of teaching but capable of a range of other work. If granted you will receive a pension based on length of service only. There is no enhancement to normal retirement age.

As a newly qualified teacher you have little service to base either of these pensions so, at present, the amount you would get could be negligible, if it were to be paid at all. You would, however, be entitled to statutory sick pay which is less than £100 per week.

Because all sickness benefits are based on length of service, when you are younger and likely to need your benefits most, to protect yourself and your family, they will be at their lowest.

Example

A teacher joins the scheme aged 25 and as a result of illness is granted ill health retirement after 2 years, with a salary of £25,000:

If granted Partial Incapacity: Pension (No lump sum)

2/60ths x £25,000 = £833 a year.

If granted Total Incapacity: Pension (No lump sum)

2/60ths + 19/60ths (enhancement) = 21/60ths x £25,000 = £8,750 a year.

Example

A teacher joins the scheme aged 25 and as a result of illness is granted ill health retirement after 5 years, with a salary of £28,000:

If granted Partial Incapacity: Pension (No lump sum)

5/60ths x £28,000 = £2,333 a year.

If granted Total Incapacity: Pension (No lump sum)

5/60ths + 17.5/60ths (enhancement) = 22.5/60ths x £28,000 = £10,500 a year.

Example

A teacher joins the scheme aged 25 and as a result of illness is granted ill health retirement after 10 years, with a salary of £30,000

If granted Partial Incapacity: Pension (No lump sum)

10/60ths x £30,000 = £5,000 a year.

If granted Total Incapacity: Pension (No lump sum)

10/60ths + 15/60ths (enhancement) = 25/60ths x £30,000 = £12,500 a year.

What should I do to protect myself and my family?

Newly qualified teachers need to consider arranging some form of income protection, in the event of ill health. There are two scenarios to consider:

Long term illness, which prevents you from working

The most common causes of long-term illness in the teaching profession, as you might expect, are stress and back problems. Neither of these conditions would automatically qualify you for an incapacity pension.

To ensure you can continue to pay the monthly bills, should you be too sick to work, you should consider purchasing Income Protection, sometimes referred to as Permanent Health Insurance.

This is an insurance policy that pays you a regular, tax-free income until you are fit enough to return to work, or until your chosen retirement age or earlier death.

We can arrange this type of cover for you, to dovetail with your existing sick pay arrangements.

Serious illness, which may affect your lifestyle

The most common serious illnesses are cancer, heart attack and stroke. Medical advancement means that, thankfully, in many cases people now survive these illnesses but many sufferers are forced to re-evaluate their life choices as a result.

Often it is possible to work whilst recovering or receiving treatment, which means that sick pay and income protection plans would not kick in.

Financial freedom in such situations removes added stress that you could do without and Critical Illness Protection can be a worthwhile purchase. This type of insurance is designed to provide you with a tax- free income or lump sum in the event of a serious illness, which could allow you to pay off your mortgage, take an extended holiday or simply jump the NHS queue by paying for your treatment privately.

We can arrange both types of cover for you. For more information, please telephone us on Freephone **0800 056 0563** or visit our website at **www.teachersassurance.co.uk**.

What happens if I die before retirement?

Take care, there could be shortfalls here too.

The scheme provides a death benefit of 3 x your annual salary. This is based on the full time equivalent salary for part-time teachers.

In addition, there may be pensions for your family and other dependants although, again, as these are based on your length of service, in the early years of your career these benefits may be extremely low. You will need a minimum of 2 years' membership of the Teachers' Pension Scheme to qualify for family and dependants benefits.

If you are single and have no dependants, the scheme benefits are likely to be sufficient.

If you are married or have dependants, you may need to take some action.

Example - Dependants Pension
A teacher joins the scheme aged 25 and dies after 2 years, on a final salary of £25,000, leaving a spouse and one child:

Pension (Spouse)	£625 a year
Pension (Child)	£312.50 a year

Example - Dependants Pension
A teacher joins the scheme aged 25 and dies after 5 years, on a final salary of £28,000, leaving a partner and one child:

Pension (Spouse)	£1,750 a year
Pension (Child)	£875 a year

Example - Dependants Pension
A teacher joins the scheme aged 25 and dies after 10 years, on a final salary of £30,000, leaving a partner and one child:

Pension (Spouse)	£3,750 a year
Pension (Child)	£1,875 a year

What if my benefits are not enough - what should I do to protect myself and my family?

There are several types of life cover.

Family Income Benefit

If you wish to provide a set level of income for your family for a defined period of time, a family income benefit plan will provide this.

Level Term Assurance

If you would rather leave your family with a lump sum of money, this type of plan may suit you better.

Term assurance is arranged for a set period of time so if you die within the term, the plan will pay out the lump sum you have selected.

Mortgage Protection

Another way you can improve your family's financial position in the event of your death is to ensure that any mortgages or debts can be repaid. Mortgage protection provides a lump sum, which can be used to repay your debts and thus reduce your family's monthly outgoings.

Whole of Life Policy

This type of cover also pays a lump sum. The plan is arranged on a 'whole life' basis, which means it has no specific end date. You can increase or decrease cover to suit your changing circumstances.

What other financial plans should I be making?

There are other financial things to consider when you start teaching. These include:-

- Mortgage planning - which is the most appropriate mortgage if you are a first time buyer, moving or remortgaging for debt consolidation, home improvements or simply to save money.*
- Savings – short, medium and long term – We offer a range of tax efficient savings plans to help bring your dreams that bit closer.

  To find out more about our range of savings and investment products, please visit www.teachersassurance.co.uk
- Buildings and contents insurance – We offer a comprehensive policy that is unique to teachers, ensuring that you are covered for personal belongings in school and school equipment at home as standard, as well as offer discounts to teachers, too.

* Your home is at risk if you do not keep up repayments on your mortgage.

Why should I choose Teachers Assurance?

Our credentials

Teachers Assurance has been looking after the financial interests of education professionals and their families for over 130 years.

As a member-owned mutual, friendly society, we have no shareholders so the only people that benefit from the profits we make as a company are our members. Should you choose to invest in one of our with-profit funds, you too will become a member of Teachers Assurance.

Our service

You can get the information, education and support you need either from visiting our website www.teachersassurance.co.uk or calling our Customer Support Team free on 0800 056 0563.

Our products

We offer a bespoke range of competitively priced, easy to understand savings and investment plans.

To complement our range, we also offer products from a carefully selected panel of companies.

Our aim is simple - to provide you with straightforward value for money and clear, fair information.

We provide support and information on Investments, Savings, Protection and Pension products from Teachers Assurance and selected third party providers.

Financial planning needn't take up a lot of your time. Our online calculator tools are quick and simple to use.

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Where do I go for more help?

Teachers Assurance

To use our free online Pension Calculator, as well as obtain further information, education and support visit our website at www.teachersassurance.co.uk or call our Customer Support Team free on 0800 056 0563.

Teachers' Pension Scheme

To obtain further information or additional illustrations of your benefits:

Address: Teachers' Pensions, Capita Hartshead, Mowden Hall, Darlington, DL3 9EE

Telephone: 0845 6066166

Website: www.teacherspensions.co.uk

If you are in any doubt whether the products detailed in this Guide are suitable for you, you should contact an Independent Financial Adviser. You can find details of your local Independent Financial Adviser by visiting www.unbiased.co.uk. Please note, you may be charged for advice.

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